

VZCZCXR00930

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DE RUEHVB #0870/01 3541505

ZNR UUUUU ZZH

P 191505Z DEC 08

FM AMEMBASSY ZAGREB

TO RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RUEHC/SECSTATE WASHDC PRIORITY 8867

INFO RUEHZN/EUROPEAN POLITICAL COLLECTIVE PRIORITY

UNCLAS SECTION 01 OF 02 ZAGREB 000870

SENSITIVE

SIPDIS

DEPARTMENT FOR EEB/ESC AND T/MARC HUMPHREY, COMMERCE FOR
ITA SARAH LOPP

E.O. 12958: N/A

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SUBJECT: CROATIA CIVIL NUCLEAR INVESTMENT PLANS:
CONSIDERING THE NUCLEAR OPTION

REF: STATE 127423

¶1. (U) In response to reftel request, Post has prepared the following information on Croatia's current plans for nuclear sector investment. This cable was prepared with the assistance of embassy commercial service staff.

¶2. (U) Overview: Croatia released its new national energy strategy for public discussion in November. The strategy lays out three possible scenarios for the estimated 10 billion euros of investment needed to develop the energy sector until 2020 in order to meet Croatia's increasing demand. Among the three scenarios, the draft strategy clearly favors the one that includes construction of a 1000 MW nuclear power plant. However, the ruling HDZ party prefers construction of a combination of coal and natural gas plants and not a nuclear plant. Discussions within the government continue, but the government is expected to officially choose one of the scenarios early in 2009. Croatia currently shares operation of the Krsko nuclear power plant in Slovenia, originally constructed by Westinghouse in 1983. For this reason, Croatia has a reasonably well-developed contracting and component industry. The Croatian electric power utility Hrvatska Elektroprivreda (HEP) estimates that 40% of contracting and components for a plant could be supplied locally. HEP has already been in discussions with Westinghouse, and visited their facilities in the U.S. However, they admit the project is in its infant stages. The energy strategy foresees a 4-6 year "political phase" of discussion, feasibility studies, and site location procedures, before any firm investment decisions are made. End Overview.

¶3. (U) Since the breakup of Yugoslavia, Croatia has held a 50% stake in the Krsko nuclear plant in Slovenia, which was constructed by Westinghouse in 1983. Although relations between Slovenia and Croatia over Krsko have been generally excellent, concerns over energy security have featured in Croatia's discussions of a nuclear plant of its own (Slovenia is reportedly considering construction of a second plant at Krsko without Croatian participation). Other factors drawing Croatia to consider domestic nuclear power are: low unit cost of nuclear power, environmental benefits in terms of CO2 emissions, and the possibility of becoming an electricity exporter. Because the project is in such an early phase, it is impossible to know what role the government would play in financing or managing the plant. However, it is highly likely any such project would be financed and managed by HEP.

¶4. (U) In response to reftel request, below are the names of the key nuclear decision making bodies and names and titles of top officials:

Damir Polancec

Minister of Economy and
Deputy Prime Minister

Branimir Horacek
Director of Energy and Mining
Ministry of Economy

Mario Horvatic
Director General
State office of Nuclear Safety

Ivan Mravak
President of the Management Board
Hrvatska Elektroprivreda (HEP)

¶ 15. (U) The Croatian State office of Nuclear Safety is relatively small, under 20 employees, and has the legal authority for oversight and inspection activities, as well as permitting for any activities covered under Croatian nuclear security legislation. Croatia is party to the Joint Protocol Relating to the Application of the Vienna and Paris Conventions on Nuclear Liability. Croatian nuclear liability legislation holds operators liable for damages up to 320 million kuna (approximately \$58 million).

¶ 16. (U) Because of Croatia's involvement with the Krsko plant in Slovenia, Croatia has a small but experienced industry capable of providing many components and contracting services. According to a member of the HEP board of directors, Croatia is capable of providing 40% of the components and contracting needs for a nuclear plant. Selected local companies with expertise in this area include: Djuro Djakovic (construction, worked on Krsko plant); Teh-Cut

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(components); Pecon (process design, assembly, construction); Elektroproject (design and engineering consultant to Krsko), Ekonerg (energy consultant who developed the draft national energy strategy); Ventilator Group (HVAC, cooling tower fans, other components); Inetec (pressure systems and consulting), Enconet (waste disposal and emergency response), among others.

¶ 17. (U) Opportunities for U.S. industry: There are no current tenders in this field. However, should Croatia decide to pursue construction of a reactor as part of its national energy strategy, then there would presumably be opportunities for U.S. industry across the full range of construction, components, operations, and consulting.

¶ 18. (SBU) In addition to discussions with Westinghouse, Croatian HEP has visited French Areva for similar introductory talks. HEP executives were impressed with their visit to Westinghouse in the U.S. Croatia has a well-established relationship with Westinghouse through the Krsko plant, but other officials have privately admitted to us there could be political pressure for Croatia to choose a fellow EU supplier (Croatia would presumably be a member of the EU by the time any nuclear project got off the ground).

¶ 19. (SBU) Comment: The shape of Croatia's future energy investment is highly uncertain, especially in the current economic climate. While a nuclear plant offers many advantages for an energy investment wish-list, experts and industry representatives worry that Croatia's energy needs are immediate and cannot be served by the long timeline that nuclear plant construction requires. Budget forecasts for 2009 indicate the government will already strain to pay salaries and service its debt, so the government could be very reticent to start down an extremely expensive path. And with local elections coming up in 2009, the government will be wary of possible strong public opposition to nuclear power. For these reasons, it will likely be years before the project materializes, if at all.

WALKER